

City of Keokuk

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplementary Information
Independent Auditor's Reports on Internal Control and Compliance
Schedule of Findings and Questioned Costs**

June 30, 2010

C o n t e n t s

	Page
Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Activities and Net Assets - Cash Basis	12
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Governmental Funds	13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets - Governmental Funds	14
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Proprietary Funds	15
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets - Proprietary Funds	16
Notes to Financial Statements	17 - 25
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	26
Notes to Required Supplementary Information - Budgetary Reporting	27
Other Supplementary Information:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	28
Statement of Indebtedness	29
Bond and Note Maturities	30 - 32
Schedule of Receipts by Source and Disbursements by Function - All Governmental Fund Types	33
Schedule of Expenditures of Federal Awards	34 - 35
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36 - 37
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	38 - 39
Schedule of Findings and Questioned Costs	40 - 43
Summary Schedule of Prior Audit Findings	44

City of Keokuk

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Marion	Mayor	December 31, 2011
Susan Dunek	Mayor Pro-tem	December 31, 2013
Zane Zirkel	Council Member-At Large	December 31, 2013
Dan Winn	Council Member-At Large	December 31, 2011
Michael O'Connor	Council Member-Ward 1	December 31, 2013
Scott Nichols	Council Member-Ward 2	December 31, 2011
Ron Payne	Council Member-Ward 3	December 31, 2013
Roger Bryant	Council Member-Ward 4	December 31, 2011
Mike Girard	Council Member-Ward 5	December 31, 2013
Karole Smith	Council Member-Ward 6	December 31, 2011
Susan Dunek	Council Member-Ward 7	December 31, 2013
John Russell	Finance Manager	Indefinite
Shirlee Laubersheimer	City Clerk	Indefinite
Steven Swan	Attorney	Indefinite
Thomas Crew	Chief of Police	Indefinite
Mark Wessel	Fire Chief	Indefinite



401 South Roosevelt Avenue - Suite 2A, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Keokuk, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Keokuk, Iowa (City) as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City as of June 30, 2010, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City as of and for the year ended June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 11 and budgetary comparison information on pages 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the two years ended June 30, 2009 (which is not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the five years ended June 30, 2007 (none of which are presented herein) were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

The other supplementary information, as listed in the table of contents, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

CPA Associates PC

December 21, 2010

City of Keokuk Management's Discussion and Analysis

The City of Keokuk (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which begin on page 12.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 14%, or approximately \$2,693,000, from fiscal 2009 to fiscal 2010. The City received an operating grant for Roquette for \$1,000,000 and operating grants from FEMA for flood damage of \$1,475,000 in fiscal year 2009.
- Disbursements of the City's governmental activities decreased 29%, or approximately \$5,892,000, in fiscal 2010 from fiscal 2009 due to the operating grant for Roquette for \$1,000,000, debt repayment of \$3,000,000, and the new aquatic center of \$2,472,000 in fiscal year 2009.
- The City's total cash basis net assets increased 26%, or approximately \$2,567,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$2,356,000 and the assets of business type activities increased approximately \$211,000.
- In FY 2009-2010 the City of Keokuk expended funds for the following capital projects which include streets, airport, the new aquatic center, waste water treatment and storm sewer separation. In the area of street construction, projects completed include Belknap Place, Belknap Blvd and Timea Street with 2009-10 expenditures of \$1,801,651. Construction was started on projects including South 2nd street from Bank to Palean, High Street from 10th to 12th, Blondeau 1st to 5th, 2nd, 3rd, and 4th from Main to Concert. 2009B and 2009D GO Bond funds in the amount of \$2,600,587 were used to finance work on these projects. Grand Ave engineering work amounted to \$112,239. At the airport, \$117,740 was expended for continuing work on the updated master plan and runway improvements. The federal reimbursement was 95% of the cost of these projects. At the waste water treatment plant, the digester project was completed with 2010 expenditure of \$85,419 and on-going CSO Storm sewer project capital expenditures were \$1,854,194. Lastly, the new aquatic center which was started in the fall of 2008, was completed in FY 2009-10 with a final expenditure of \$278,473 in the current year.
- The City of Keokuk continues to work with Keokuk Habitat for Humanity to provide assistance in the construction of affordable housing. To date, six substandard houses have been demolished and replaced with affordable housing for low income families. Keokuk is participating in the Project Based Housing Program. To date, two dilapidated properties have been acquired, demolished and new homes constructed. The City is in the third year of its Community Development Block Grant Housing Fund program. This program is administered by Southeast Iowa Regional Planning for the restoration of homes in blighted areas by way of a forgivable loan. Nine homes have been completed and the final home is scheduled to begin rehabilitation.
- In addition to the damage from storms in early 2010, the City of Keokuk continues to address corrective issues associated with the flood of 2008. The 2010 heavy rainfall damaged sewers, streets and the bluff areas overlooking the Mississippi River. Cost estimates to repair the damage have not been finalized. Federal and State officials are working with the city to repair and help reimburse for the damage.
- In FY 2009-10 Keokuk continued to reconstruct city residential streets as part of a comprehensive \$13,000,000 ten year project.

City of Keokuk Management's Discussion and Analysis

- In the recent fiscal year the City continued to develop a city webpage, which is nearing completion.
- In FY 2009-2010 Keokuk continued to work with promising industrial investors.
- In FY 2008-2009 Keokuk commissioned and received a comprehensive riverscape plan to invigorate and beautify Keokuk's riverfront. The committee continued its work during the current year.
- In the current year, the City negotiated with Keokuk Junction Railroad to acquire the Historic Union Depot. The negotiations were finalized in the fall of 2010.
- In 2009-2010 Keokuk received federal grant money for much needed police training equipment. Also, the police department, in combination with Lee County and Fort Madison formed a consolidated dispatch which became operational in the fall of 2010.
- Phase I of the combined sanitary/storm sewer project construction continued through the fall of 2009 and the summer of 2010. The construction project is estimated to have a final cost of \$5.5 million.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consist of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

City of Keokuk Management's Discussion and Analysis

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include solid waste, bridge and the sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax, Urban Renewal Tax Increment Financing (TIF) and Employee Benefits, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Other Nonmajor Governmental funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains the Enterprise Funds to provide information for the sewer, bridge, and solid waste funds, considered to be major funds of the City. Internal Service Fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The Internal Service Fund utilized by the City accounts for retirees, Keokuk Municipal Water Works, and Low Rent Housing group health insurance.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

**City of Keokuk
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$5.29 million to \$7.65 million. Our analysis below focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in thousands)	Year Ended June 30, 2010	2009
Receipts:		
Program receipts:		
Charges for services	\$ 397	\$ 371
Operating grants, contributions and restricted interest	2,248	4,022
Capital grants, contributions and restricted interest	94	897
General receipts:		
Property tax	3,085	2,979
Local option sales tax	1,208	1,220
Tax increment financing	1,384	1,064
Debt service	448	421
Utility excise tax	695	775
Riverboat gaming tax	389	394
Hotel/Motel tax	211	237
Unrestricted interest on investments	151	264
Bond proceeds	5,965	6,329
Other general receipts	<u>205</u>	<u>200</u>
Total receipts	<u>16,480</u>	<u>19,173</u>
Disbursements:		
Public safety	4,611	3,982
Public works	1,858	3,830
Culture and recreation	1,383	1,174
Community and economic development	445	1,486
General government	561	524
Debt service	2,149	4,536
Capital projects	<u>3,190</u>	<u>4,557</u>
Total disbursements	<u>14,197</u>	<u>20,089</u>
Change in cash basis net assets before transfers	2,283	(916)
Transfers, net	<u>73</u>	<u>175</u>
Change in cash basis net assets	2,356	(741)
Cash basis net assets beginning of year	<u>5,292</u>	<u>6,033</u>
Cash basis net assets end of year	<u>\$ 7,648</u>	<u>\$ 5,292</u>

The City's total receipts for governmental activities decreased 14%, or approximately \$2,693,000, from fiscal 2009 to fiscal 2010. The City received an operating grant for Roquette for \$1,000,000 and operating grants from FEMA for flood damage of \$1,475,000 in fiscal year 2009. The total cost of all programs and services decreased by approximately \$5,892,000 or 29% with no new programs added this year. This decrease was primarily due to the operating grant for Roquette for \$1,000,000, debt repayment of \$3,000,000, and the new aquatic center of \$2,472,000 in fiscal year 2009.

City of Keokuk
Management's Discussion and Analysis

The cost of all governmental activities this year was \$14.20 million compared to \$20.09 million last year. However, as shown in the Statement of Activities and Net Assets on page 12, the amount that our taxpayers ultimately financed for these activities through City taxes was \$11.46 million because some of the cost was paid by those directly benefited from the programs (\$397,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,343,000). The City paid for the remaining public benefit portion of governmental activities with approximately \$11,457,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Change in Cash Basis of Net Assets Business Type Activities (Expressed in thousands)	Year Ended June 30, 2010	2009
Receipts:		
Program receipts:		
Sewer charges	\$ 2,695	\$ 2,411
Bridge charges	239	146
Solid waste charges	691	697
General receipts:		
Bond proceeds	1,579	527
Miscellaneous receipts	93	214
Total receipts	<u>5,297</u>	<u>3,995</u>
Disbursements:		
Sewer	3,908	2,882
Bridge	423	505
Solid waste	682	952
Total disbursements	<u>5,013</u>	<u>4,339</u>
Change in cash basis net assets before transfers	284	(344)
Transfers, net	<u>(73)</u>	<u>(175)</u>
Change in cash basis net assets	211	(519)
Cash basis net assets beginning of year	<u>4,569</u>	<u>5,088</u>
Cash basis net assets end of year	<u>\$ 4,780</u>	<u>\$ 4,569</u>

Total business type activities receipts for the fiscal year were \$5.3 million compared to \$4.0 million last year. This increase was due primarily to the receipt of bond proceeds in 2010. Total disbursements for the fiscal year increased by approximately 16%, to a total of \$5.0 million due to the increase of a sewer capital project.

**City of Keokuk
Management's Discussion and Analysis**

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows and cash balances of spendable resources. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$160,000, a decrease of \$33,000 from the prior year.
- The Road Use Tax Fund (RUTF) cash balance increased by \$63,000 to \$286,000 during the fiscal year.
- The Local Option Sales Tax cash balance decreased by \$263,000 to \$1,467,000 during the fiscal year. This occurred due to spending the reserved funds for capital projects in the current year.
- The Capital Projects Fund increased \$2,898,000 to \$3,683,000, due to the receipt of bond proceeds for capital projects, primarily street projects.
- The Urban Renewal TIF Fund increased \$58,000 to \$949,000 during the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased by \$298,000 to \$1,132,000 due to the receipt of bond proceeds for capital projects.
- The Bridge Fund cash balance decreased by \$95,000 to \$3,494,000.
- The Solid Waste Fund cash balance increased by \$8,700 to \$120,000.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget. The amendment was approved on May 20, 2010, and resulted in an increase in revenues of \$1,067,102 and an increase in operating disbursements of \$1,088,234. Increases in revenues included TIF, other taxes, intergovernmental, and charges for services and increases in expenditures included public safety, public works, community and economic development, general government, debt service, and business type activities.

The City exceeded the amounts budgeted in the culture and recreation, community and economic development, capital projects and debt service functions for the year ended June 30, 2010.

**City of Keokuk
Management's Discussion and Analysis**

DEBT ADMINISTRATION

At year end, the City had approximately \$22,094,000 in bonds and other long-term debt compared to approximately \$15,989,000 last year as shown below.

Outstanding Debt at Year-End (Expressed in thousands)		2010	2009
General obligation bonds	\$	15,495	\$ 10,685
Revenue bonds		2,728	1,209
Capital loan notes		526	640
Urban renewal TIFs		<u>3,345</u>	<u>3,455</u>
Total	\$	<u>22,094</u>	<u>\$ 15,989</u>

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$19,365,835 is below the City's \$23.6 million legal debt limit. The City's general obligation bond rating continues to be A3, a rating that has been assigned by Moody's Investor Services.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements. It is important to note that the 1996 General Obligation Bonds are paid from Tax Increment Financing revenue to pay the required debt service for floodwall improvements by the City. All revenues derived from the Twin Rivers TIF district are directed toward debt service payments on the 2002 Capital Loan Notes. All revenues derived from Keokuk Senior Housing TIF are directed toward debt service payments on the 2005 General Obligation Bonds and bank debt for the industrial development project is being serviced from TIF revenues from that project.

EXCLUDED COMPONENT UNITS

Keokuk Municipal Water Works (Water Works) is a component unit of the City of Keokuk. The Water Works and the City of Keokuk are considered separate legal entities. The Water Works meets the component unit definition because the City Council appoints the Board of Trustees of the Water Works. However, since Water Works operates under the accrual method of accounting and the City of Keokuk operates under the cash method of accounting, this component unit has not been presented in the accompanying financial statements. The financial statements of the Water Works are available at the Water Works office, 20 North 4th Street, Keokuk, Iowa.

Keokuk Public Library Foundation (Foundation) is a component unit of the City of Keokuk. The Foundation, a separate legal entity, exists for the purpose of attracting funds to benefit the Public Library which serves the Keokuk area and to disburse those funds in a manner which will benefit the Library. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of the Foundation have not been audited, so this component unit has not been presented in the accompanying financial statements.

**City of Keokuk
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The continued poor economy, high unemployment regionally, the State of Iowa's fiscal woes, the rollback on commercial property and the decrease in the Utility Excise Tax has caused the City to continue to experience cuts in revenues resulting in decreased operating revenues for the City especially in general fund departmental operations. There is also concern regarding future property tax revenues resulting from State legislation which could overhaul the property tax system. Any change would not come into play immediately but could impact the City in future years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or to request additional information, contact the Finance Manager's office at 415 Blondeau Street, Keokuk, Iowa 52632 or telephone at 319-524-2050.

BASIC FINANCIAL STATEMENTS

City of Keokuk
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2010

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for	Operating Grants	Capital Grants	Governmental	Business Type	
		Service and	Contributions,	Contributions	Activities	Activities	
		Sales	and Restricted				Total
		Interest					

See notes to financial statements.

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2010

	Special Revenue							Other Nonmajor	
	General	Road Use	Sales Tax	Employee Benefits	Urban Renewal TIF	Debt Service	Capital Projects	Governmen-tal	Total
Receipts:									
Property tax	\$ 2,002,391	\$ -	\$ -	\$ 1,019,379	\$ -	\$ 448,404	\$ -	\$ 62,838	\$ 3,533,012
Tax increment financing collections	-	-	-	-	1,384,357	-	-	-	1,384,357
Other taxes	999,438	-	1,208,216	203,765	-	78,101	-	12,561	2,502,081
Use of money and property	137,832	-	7,506	-	-	1,904	7,311	-	154,553
Licenses and permits	139,211	-	-	-	-	-	-	-	139,211
Intergovernmental	1,148,937	1,010,079	-	-	-	-	94,381	146,902	2,400,299
Charges for services	210,197	-	-	-	-	-	-	-	210,197
Miscellaneous	148,821	-	-	854	-	-	-	37,010	186,685
Total receipts	<u>4,786,827</u>	<u>1,010,079</u>	<u>1,215,722</u>	<u>1,223,998</u>	<u>1,384,357</u>	<u>528,409</u>	<u>101,692</u>	<u>259,311</u>	<u>10,510,395</u>
Disbursements:									
Governmental activities:									
Public safety	4,611,053	-	-	-	-	-	-	-	4,611,053
Public works	910,717	947,433	-	-	-	-	-	-	1,858,150
Culture and recreation	1,382,831	-	-	-	-	-	-	-	1,382,831
Community and economic development	123,139	-	-	-	51,789	-	-	270,358	445,286
General government	560,719	-	-	-	-	-	-	-	560,719
Debt service	-	-	-	-	308,906	1,839,681	-	-	2,148,587
Capital projects	-	-	-	-	-	-	3,189,899	-	3,189,899
Total disbursements	<u>7,588,459</u>	<u>947,433</u>	<u>-</u>	<u>-</u>	<u>360,695</u>	<u>1,839,681</u>	<u>3,189,899</u>	<u>270,358</u>	<u>14,196,525</u>
Excess (deficiency) of receipts over disbursements	(2,801,632)	62,646	1,215,722	1,223,998	1,023,662	(1,311,272)	(3,088,207)	(11,047)	(3,686,130)
Other financing sources (uses):									
Sale of capital assets	5,000	-	-	-	-	-	-	-	5,000
Bond proceeds	-	-	-	-	-	-	5,965,000	-	5,965,000
Operating transfers in (out)	<u>2,763,428</u>	<u>-</u>	<u>(1,478,965)</u>	<u>(1,491,513)</u>	<u>(966,074)</u>	<u>1,307,573</u>	<u>21,314</u>	<u>(82,264)</u>	<u>73,499</u>
Net change in cash balances	(33,204)	62,646	(263,243)	(267,515)	57,588	(3,699)	2,898,107	(93,311)	2,357,369
Cash balances beginning of year	<u>193,097</u>	<u>223,283</u>	<u>1,730,698</u>	<u>739,055</u>	<u>891,587</u>	<u>4,336</u>	<u>784,673</u>	<u>758,129</u>	<u>5,324,858</u>
Cash balances end of year	<u>\$ 159,893</u>	<u>\$ 285,929</u>	<u>\$ 1,467,455</u>	<u>\$ 471,540</u>	<u>\$ 949,175</u>	<u>\$ 637</u>	<u>\$ 3,682,780</u>	<u>\$ 664,818</u>	<u>\$ 7,682,227</u>
Cash Basis Fund Balances									
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ 308,900	\$ 637	\$ -	\$ -	\$ 309,537
Unreserved:									
General fund	159,893	-	-	-	-	-	-	-	159,893
Special revenue fund	-	285,929	1,467,455	471,540	640,275	-	-	273,901	3,139,100
Capital projects fund	-	-	-	-	-	-	3,682,780	-	3,682,780
Permanent fund	-	-	-	-	-	-	-	390,917	390,917
Total cash basis fund balances	<u>\$ 159,893</u>	<u>\$ 285,929</u>	<u>\$ 1,467,455</u>	<u>\$ 471,540</u>	<u>\$ 949,175</u>	<u>\$ 637</u>	<u>\$ 3,682,780</u>	<u>\$ 664,818</u>	<u>\$ 7,682,227</u>

See notes to financial statements.

City of Keokuk
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the Year Ended June 30, 2010

Total governmental funds cash balances (page 13) \$ 7,682,227

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.

(33,894)

Cash basis net assets of governmental activities (page 12) \$ 7,648,333

Net change in cash balances (page 13) \$ 2,357,369

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(633)

Change in cash balance of governmental activities (page 12) \$ 2,356,736

See notes to financial statements.

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2010

	<u>Enterprise Funds</u>				<u>Internal Service Fund Employee Health</u>
	<u>Sewer</u>	<u>Bridge</u>	<u>Solid Waste</u>	<u>Total</u>	
Operating Receipts:					
Charges for service	\$ <u>2,695,227</u>	\$ <u>238,719</u>	\$ <u>691,013</u>	\$ <u>3,624,959</u>	\$ <u>397,818</u>
Total operating receipts	<u>2,695,227</u>	<u>238,719</u>	<u>691,013</u>	<u>3,624,959</u>	<u>397,818</u>
Operating Disbursements:					
Business type activities	<u>1,912,679</u>	<u>369,728</u>	<u>593,739</u>	<u>2,876,146</u>	<u>-</u>
Total operating disbursements	<u>1,912,679</u>	<u>369,728</u>	<u>593,739</u>	<u>2,876,146</u>	<u>-</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>782,548</u>	<u>(131,009)</u>	<u>97,274</u>	<u>748,813</u>	<u>397,818</u>
Non-operating receipts (disbursements):					
Interest on investments	3,004	85,848	-	88,852	-
Miscellaneous	756	3,066	-	3,822	-
Bond proceeds	1,579,391	-	-	1,579,391	-
Non-program	-	-	-	-	(398,612)
Capital projects	(1,939,613)	(53,254)	-	(1,992,867)	-
Debt service	<u>(55,038)</u>	<u>-</u>	<u>(88,571)</u>	<u>(143,609)</u>	<u>-</u>
Net non-operating receipts (disbursements)	<u>(411,500)</u>	<u>35,660</u>	<u>(88,571)</u>	<u>(464,411)</u>	<u>(398,612)</u>
Excess (deficiency) of receipts over disbursements	<u>371,048</u>	<u>(95,349)</u>	<u>8,703</u>	<u>284,402</u>	<u>(794)</u>
Operating transfers in (out)	<u>(73,499)</u>	<u>-</u>	<u>-</u>	<u>(73,499)</u>	<u>-</u>
Net change in cash balances	297,549	(95,349)	8,703	210,903	(794)
Cash balances beginning of year	<u>834,905</u>	<u>3,589,259</u>	<u>111,409</u>	<u>4,535,573</u>	<u>15</u>
Cash balances end of year	\$ <u>1,132,454</u>	\$ <u>3,493,910</u>	\$ <u>120,112</u>	\$ <u>4,746,476</u>	\$ <u>(779)</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ -	\$ -	\$ 76,500	\$ 76,500	\$ -
Unreserved	<u>1,132,454</u>	<u>3,493,910</u>	<u>43,612</u>	<u>4,669,976</u>	<u>(779)</u>
Total cash basis fund balances	\$ <u>1,132,454</u>	\$ <u>3,493,910</u>	\$ <u>120,112</u>	\$ <u>4,746,476</u>	\$ <u>(779)</u>

See notes to financial statements.

City of Keokuk
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the Year Ended June 30, 2010

Total enterprise funds cash balances (page 15) \$ 4,746,476

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Activities and Net Assets.

33,115

Cash basis net assets of business type activities (page 12) \$ 4,779,591

Net change in cash balances (page 15) \$ 210,903

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

(161)

Change in cash balance of business type activities (page 12) \$ 210,742

See notes to financial statements.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Keokuk (City) is a political subdivision of the State of Iowa located in Lee County. It was incorporated in 1847 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides solid waste removal and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Keokuk (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City is significant.

Excluded Component Units

Keokuk Municipal Water Works (Water Works) is a component unit of the City of Keokuk. The Water Works and the City of Keokuk are considered separate legal entities. The Water Works meets the component unit definition because the City Council appoints the Board of Trustees of the Water Works. However, since Water Works operates under the accrual method of accounting and the City of Keokuk operates under the cash method of accounting, this component unit has not been presented in the accompanying financial statements. The financial statements of the Water Works are available at the Water Works' office, 20 North 4th Street, Keokuk, Iowa.

Keokuk Public Library Foundation (Foundation) is a component unit of the City of Keokuk. The Foundation, a separate legal entity, exists for the purpose of attracting funds to benefit the Public Library, which serves the Keokuk area and to disburse those funds in a manner that will benefit the Library. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of the Foundation have not been audited, so this component unit has not been presented in the accompanying financial statements.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Keokuk Economic Development Corporation and Great River Regional Waste Authority.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund (TIF) is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and is used for property tax relief, infrastructure, parks and recreation services.

City of Keokuk
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Special Revenue (continued):

The Employee Benefits Fund is used to account for the employee benefits paid.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

The Bridge Fund accounts for the operation and maintenance of the City's bridge.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of employee benefits purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, debt service and capital projects functions.

City of Keokuk
Notes to Financial Statements

Note 2. Cash and Pooled Investments

The City's deposits at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; interest bearing accounts in the Iowa Public Agency Investment Trust, a jointly sponsored program for the members of the Iowa League of Cities, the Iowa State Association of Counties and the Iowa Association of Municipal Utilities.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$3,724,048 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

Note 3. Bonds and Notes Payable

A summary of the City's June 30, 2010 general obligation, revenue bond and urban renewal indebtedness is as follows:

Year Ended June 30,	General Obligation and Capital Loan Notes		Revenue Bonds		Urban Renewal		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 4,511,228	\$ 682,971	\$ 60,000	\$ 59,355	\$ 115,000	\$ 193,456	\$ 4,686,228	\$ 935,782
2012	948,567	512,264	207,000	152,486	120,000	187,994	1,275,567	852,744
2013	980,920	471,280	333,754	182,792	125,000	181,843	1,439,674	835,915
2014	940,000	431,246	286,000	173,931	130,000	175,281	1,356,000	780,458
2015	985,120	391,573	294,648	164,653	140,000	168,294	1,419,768	724,520
2016-2020	2,840,000	1,461,158	697,000	227,831	630,000	726,813	4,167,000	2,415,802
2021-2025	2,915,000	864,510	442,000	135,390	790,000	530,700	4,147,000	1,530,600
2026-2029	1,900,000	215,440	408,131	57,990	1,295,000	233,100	3,603,131	506,530
	<u>\$ 16,020,835</u>	<u>\$ 5,030,442</u>	<u>\$ 2,728,533</u>	<u>\$ 1,154,428</u>	<u>\$ 3,345,000</u>	<u>\$ 2,397,481</u>	<u>\$ 22,094,368</u>	<u>\$ 8,582,351</u>

City of Keokuk
Notes to Financial Statements

Note 3. Bonds and Notes Payable (continued)

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) A Solid Waste Enterprise Revenue Debt Service Reserve Fund of \$76,500 shall be maintained and used solely for the purpose of paying principal of and interest on the Note and Parity Obligations as the same shall become due and payable.
- (c) Solid Waste Net Revenues must be sufficient to produce and maintain net revenues at a level not less than 130% of the principal and interest requirements of the fiscal year.
- (d) Sufficient monthly transfers shall be made to separate solid waste revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.

On January 20, 2010, the City issued \$1,650,000 in Forgivable Loan Sewer Revenue Capital Loan Notes. The proceeds are to be used to fund the sewer improvement construction project. This bond matures semi-annually beginning June 1, 2012 through June 1, 2029, with a 3.00% interest rate. As of June 30, 2010, the City has drawn down \$1,426,131. The bond will be forgiven and no payments of interest, principal, or fees shall be due under the bond following completion of the sewer improvement project and receipt by the State of Iowa of a certificate of completion from the City. If the bond is not forgiven, principal and interest payments will begin June 1, 2012, with an interest rate of 3.00%.

The City had an outstanding contract between the Iowa Department of Economic Development (IDED) and a city business for a Community Economic Betterment Account (CEBA) loan at June 30, 2010. Although the note bears the name of the City, the City has no obligation for such debt beyond the resources provided by the business entity upon whose behalf it is issued. Accordingly, the loans are not reported as a liability in the accompanying financial statements.

Note 4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

City of Keokuk
Notes to Financial Statements

Note 4. Pension and Retirement Benefits (continued)

Most plan members are required to contribute 4.30% of their annual salary and the City is required to contribute 6.65% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008, was \$182,675, \$164,617, and \$146,840, respectively, equal to the required contributions for each year.

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322. Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by State statute. The City's contribution to the Plan for the years ended June 30, 2010, 2009, and 2008 was \$345,559, \$351,148, and \$453,445, respectively, equal to the required contributions for each year.

Note 5. Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical, prescription drug, dental, and vision benefits for retirees and their spouses. There are 107 active and 16 retired members in the plan. Participants must be age 55 or older at retirement.

The medical, prescription drug, dental and vision coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$402 for single coverage, \$888 for employee/spouse coverage, \$838 for employee/child coverage and \$1,202 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$1,157,168 and plan members eligible for benefits contributed \$114,934 to the plan.

Note 6. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or normal retirement. Upon retirement each employee is entitled to 100% of his accumulated sick leave up to a maximum of 71 days or 568 hours. City management employees may accumulate a maximum of 90 days or 720 hours. The fire department employees are entitled to 900 hours of accumulated sick leave due to their longer average work week. Fire and police administration employees are entitled to 720 hours of accumulated sick leave.

City of Keokuk
Notes to Financial Statements

Note 6. Compensated Absences (continued)

Accumulated sick leave and vacation are not recognized as expenditures by the City until used or paid. The City's maximum liability for unrecognized accrued employee benefits as of June 30, 2010, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 451,992
Sick leave	<u>18,632</u>
	<u>\$ 470,624</u>

This liability has been computed based on rates of pay as of June 30, 2010.

Note 7. Related Party Transactions

The City had business transactions between the City and City employees totaling \$34,020 during the year ended June 30, 2010. The Keokuk Municipal Water Works pays the City on an annual basis. This amounted to \$200,000 for the year ended June 30, 2010 and is included as revenue in the general fund.

Note 8. Industrial Development Revenue Bonds

The City issued \$8,745,000 of industrial revenue bonds of which \$5,435,000 is outstanding at June 30, 2010, for the purposes of constructing privately owned manufacturing and other related facilities within the City. The bonds are not direct or contingent liabilities of the City, as the revenue from lease agreements and property purchased with the bond proceeds are pledged for the total payment of principal and interest on the bonds and the bondholders can only look to these sources for repayment.

Note 9. Deficit Fund Balance

The Internal Service Employee Health Fund had a deficit balance of \$779 at June 30, 2010. The deficit balance was due to program costs incurred prior to receipt of revenues or transfers.

Note 10. Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Keokuk
Notes to Financial Statements

Note 11. Operating Leases - Lessor

The City leases land to Crown Castle in Tolmie Park. The lease has a term of five years, expiring December 2010, with the option to renew for three additional five-year periods. Rental income for the year ended June 30, 2010 totaled \$13,800. Future minimum lease payments until the end of the lease term are:

2011	\$ 5,750
------	----------

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2010 totaled \$23,045.

Note 12. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special revenue	\$ 2,763,428
Debt service	Special revenue	1,234,074
Debt service	Enterprise funds	73,499
Capital projects	Special revenue	<u>21,314</u>
		<u>\$ 4,092,315</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 13. Revolving Loan Fund

The City has entered into an agreement with Southeast Iowa Regional Planning Commission (SEIRPC) to establish a revolving loan fund for commercial business growth and to assist in new business development. The City received a matching grant of \$99,000 from the United States Department of Agriculture - Rural Business Enterprise Grant. The City transferred \$100,000 in fiscal year 2007 to SEIRPC, which administers and manages the revolving loan fund. At June 30, 2010, these loans to businesses had a balance of \$114,632.

Note 14. Subsequent Event

The City performed an evaluation of subsequent events through December 21, 2010, which is the date the financial statements were issued. The City issued general obligation bonds in the amount of \$4,225,0000 subsequent to year end.

City of Keokuk
Notes to Financial Statements

Note 15. Commitments

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The principal commitments of the City at June 30, 2010 are as follows:

Street projects	\$ 1,597,953
Airport runway improvement	3,990
Sewer - digester improvement and overflow project	<u>2,448,551</u>
Total	<u>\$ 4,050,494</u>

Note 16. Prospective Accounting Change

The GASB has issued a Statement not yet implemented by the City. Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued February 2009, will be effective for the City for the fiscal year ending June 30, 2011. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. The fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. In the year that Statement No. 54 is implemented, the beginning fund balance classifications will be retroactively restated for prior periods presented. The City's management has not yet determined the effect this Statement will have on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Keokuk
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2010

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds Not Required to be <u>Budgeted</u>	<u>Net</u>	Budget <u>Original</u>	Budget <u>Final</u>	Final to Actual Variance Favorable (Unfavorable)
Receipts:							
Property tax	\$ 3,533,012	\$ -	\$ -	\$ 3,533,012	\$ 3,543,610	\$ 3,482,300	\$ 50,712
Tax increment financing collections	1,384,357	-	-	1,384,357	1,326,398	1,374,794	9,563
Other taxes	2,502,081	-	-	2,502,081	2,460,722	2,533,781	(31,700)
Use of money and property	154,553	88,852	-	243,405	338,896	241,740	1,665
Licenses and permits	139,211	-	-	139,211	164,000	139,568	(357)
Intergovernmental	2,400,299	-	-	2,400,299	1,424,847	2,776,575	(376,276)
Charges for services	210,197	4,022,777	397,818	3,835,156	3,493,640	3,738,242	96,914
Miscellaneous	186,685	3,822	-	190,507	625,760	157,975	32,532
Total receipts	<u>10,510,395</u>	<u>4,115,451</u>	<u>397,818</u>	<u>14,228,028</u>	<u>13,377,873</u>	<u>14,444,975</u>	<u>(216,947)</u>
Disbursements:							
Public safety	4,611,053	-	-	4,611,053	4,188,253	4,657,023	45,970
Public works	1,858,150	-	-	1,858,150	1,696,891	2,003,036	144,886
Culture and recreation	1,382,831	-	-	1,382,831	1,352,457	1,307,787	(75,044)
Community and economic development	445,286	-	-	445,286	165,435	357,651	(87,635)
General government	560,719	-	-	560,719	556,054	564,772	4,053
Debt service	2,148,587	-	-	2,148,587	1,829,387	2,089,548	(59,039)
Capital projects	3,189,899	-	-	3,189,899	4,035,690	2,659,540	(530,359)
Business type	-	5,012,622	-	5,012,622	3,946,626	5,219,670	207,048
Non-program	-	398,612	398,612	-	-	-	-
Total disbursements	<u>14,196,525</u>	<u>5,411,234</u>	<u>398,612</u>	<u>19,209,147</u>	<u>17,770,793</u>	<u>18,859,027</u>	<u>(350,120)</u>
Excess (deficiency) of receipts over disbursements	(3,686,130)	(1,295,783)	(794)	(4,981,119)	(4,392,920)	(4,414,052)	(567,067)
Other financing sources, net	<u>6,043,499</u>	<u>1,505,892</u>	<u>-</u>	<u>7,549,391</u>	<u>4,004,400</u>	<u>5,199,655</u>	<u>2,349,736</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	2,357,369	210,109	(794)	2,568,272	(388,520)	785,603	1,782,669
Cash balances beginning of year	<u>5,324,858</u>	<u>4,535,588</u>	<u>15</u>	<u>9,860,431</u>	<u>9,717,226</u>	<u>9,860,446</u>	<u>(15)</u>
Cash balances end of year	<u>\$ 7,682,227</u>	<u>\$ 4,745,697</u>	<u>\$ (779)</u>	<u>\$ 12,428,703</u>	<u>\$ 9,328,706</u>	<u>\$ 10,646,049</u>	<u>\$ 1,782,654</u>

See accompanying independent auditor's report.

City of Keokuk
Required Supplementary Information
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, internal service, non-expendable trust, and agency funds (when they exist). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Permanent Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$1,088,234. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, debt service and capital projects functions.

OTHER SUPPLEMENTARY INFORMATION

City of Keokuk
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2010

	<u>Special Revenue</u>		<u>Permanent</u>	
	<u>Economic Development</u>	<u>Emergency Tax Levy</u>	<u>Cemetery PC</u>	<u>Total</u>
Receipts:				
Property tax	\$ -	\$ 62,838	\$ -	\$ 62,838
Other taxes	-	12,561	-	12,561
Intergovernmental	146,902	-	-	146,902
Miscellaneous	<u>23,280</u>	<u>-</u>	<u>13,730</u>	<u>37,010</u>
Total receipts	<u>170,182</u>	<u>75,399</u>	<u>13,730</u>	<u>259,311</u>
Disbursements:				
Community and economic development	<u>270,358</u>	<u>-</u>	<u>-</u>	<u>270,358</u>
Total disbursements	<u>270,358</u>	<u>-</u>	<u>-</u>	<u>270,358</u>
Excess (deficiency) of receipts over disbursements	<u>(100,176)</u>	<u>75,399</u>	<u>13,730</u>	<u>(11,047)</u>
Other financing sources (uses):				
Operating transfer out	<u>-</u>	<u>(75,399)</u>	<u>(6,865)</u>	<u>(82,264)</u>
Total other financing sources (uses)	<u>-</u>	<u>(75,399)</u>	<u>(6,865)</u>	<u>(82,264)</u>
Net change in cash balances	(100,176)	-	6,865	(93,311)
Cash balances beginning of year	<u>374,077</u>	<u>-</u>	<u>384,052</u>	<u>758,129</u>
Cash balances end of year	<u>\$ 273,901</u>	<u>\$ -</u>	<u>\$ 390,917</u>	<u>\$ 664,818</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue fund	\$ 273,901	\$ -	\$ -	\$ 273,901
Permanent fund	<u>-</u>	<u>-</u>	<u>390,917</u>	<u>390,917</u>
Total cash basis fund balances	<u>\$ 273,901</u>	<u>\$ -</u>	<u>\$ 390,917</u>	<u>\$ 664,818</u>

See accompanying independent auditor's report.

City of Keokuk
Statement of Indebtedness
Year Ended June 30, 2010

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General obligation bonds:									
Refunding capital notes	05/01/02	4.00-4.80%	\$ 4,685,000	\$ 2,485,000	\$ -	\$ 265,000	\$ 2,220,000	\$ 110,838	\$ -
Refunding capital notes	11/01/05	3.55-4.00%	2,440,000	1,570,000	-	245,000	1,325,000	59,850	-
Capital loan notes	08/01/06	4.20-6.00%	3,000,000	2,550,000	-	30,000	2,520,000	112,576	-
Capital loan notes	05/01/07	4.00-4.25%	1,300,000	1,080,000	-	115,000	965,000	44,880	-
Capital loan notes	05/01/09	4.25-5.25%	3,000,000	3,000,000	-	100,000	2,900,000	147,620	-
Capital loan notes	10/01/09	2.00-4.70%	2,565,000	-	2,565,000	400,000	2,165,000	65,281	-
Capital loan notes	11/19/09	3.75%	3,400,000	-	<u>3,400,000</u>	<u>-</u>	<u>3,400,000</u>	<u>-</u>	<u>-</u>
Total				<u>10,685,000</u>	<u>5,965,000</u>	<u>1,155,000</u>	<u>15,495,000</u>	<u>541,045</u>	<u>-</u>
Revenue bonds:									
Solid waste capital loan note	04/24/08	3.94%	\$ 765,000	\$ 715,000	\$ -	\$ 60,000	\$ 655,000	\$ 28,171	\$ -
Sewer revenue capital loan note	07/01/07	0.00%	670,000	494,141	55,617	549,758	-	-	-
Sewer revenue capital loan note	12/16/09	0.00%	440,000	-	58,754	-	58,754	-	-
Sewer revenue capital loan note	01/20/10	3.00%	1,650,000	-	1,426,131	-	1,426,131	-	-
Sewer revenue capital loan note	01/20/10	3.00%	3,889,000	-	<u>588,648</u>	<u>-</u>	<u>588,648</u>	<u>16,149</u>	<u>-</u>
Total				<u>1,209,141</u>	<u>2,129,150</u>	<u>609,758</u>	<u>2,728,533</u>	<u>44,320</u>	<u>-</u>
Capital loan notes:									
Capital loan-Industrial development project	11/03/06	4.78%	\$ 470,120	\$ 370,120	\$ -	\$ 50,000	\$ 320,120	\$ 17,937	\$ -
Capital loan note	06/15/09	3.50%	270,000	<u>270,000</u>	<u>-</u>	<u>64,285</u>	<u>205,715</u>	<u>9,214</u>	<u>-</u>
Total				<u>640,120</u>	<u>-</u>	<u>114,285</u>	<u>525,835</u>	<u>27,151</u>	<u>-</u>
Urban renewal tax increment revenue capital loan note									
	09/01/08	4.50-6.00%	\$ 3,455,000	<u>\$ 3,455,000</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 3,345,000</u>	<u>\$ 198,406</u>	<u>\$ -</u>
Total of all debt				<u>\$ 15,989,261</u>	<u>\$ 8,094,150</u>	<u>\$ 1,989,043</u>	<u>\$ 22,094,368</u>	<u>\$ 810,922</u>	<u>\$ -</u>

See accompanying independent auditor's report.

City of Keokuk
Bond and Note Maturities
June 30, 2010

Refunding Capital Notes																
Year Ending June 30,	Refunding Capital Notes		Refunding Capital Notes		Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		Capital Loan Notes		Capital Loan Notes	
	Issued May 1, 2002		Issued November 1, 2005		Issued August 1, 2006		Issued May 1, 2007		Issued May 1, 2009		Issued October 1, 2009		Issued November 19, 2009			
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total	
2011	4.20%	\$ 280,000	4.00%	\$ 260,000	6.00%	\$ 30,000	4.25%	\$ 120,000	5.00%	\$ 100,000	2.00%	\$ 195,000	3.75%	\$ 3,400,000	\$ 4,385,000	
2012	4.30%	290,000	4.00%	270,000	6.00%	35,000	4.25%	125,000	5.00%	100,000	-	-	-	-	820,000	
2013	4.35%	300,000	3.55%	280,000	4.20%	35,000	4.25%	130,000	5.00%	105,000	-	-	-	-	850,000	
2014	4.45%	315,000	3.65%	290,000	4.25%	25,000	4.00%	140,000	5.00%	110,000	-	-	-	-	880,000	
2015	4.60%	330,000	3.70%	225,000	4.30%	85,000	4.05%	145,000	5.00%	120,000	-	-	-	-	905,000	
2016	4.70%	345,000	-	-	4.35%	50,000	4.10%	150,000	5.00%	125,000	-	-	-	-	670,000	
2017	4.80%	360,000	-	-	4.40%	50,000	4.15%	155,000	5.00%	130,000	-	-	-	-	695,000	
2018	-	-	-	-	4.25%	205,000	-	-	5.00%	135,000	4.00%	125,000	-	-	465,000	
2019	-	-	-	-	4.30%	215,000	-	-	4.25%	145,000	4.00%	135,000	-	-	495,000	
2020	-	-	-	-	4.30%	225,000	-	-	4.35%	150,000	4.00%	140,000	-	-	515,000	
2021	-	-	-	-	4.35%	235,000	-	-	4.50%	155,000	4.15%	145,000	-	-	535,000	
2022	-	-	-	-	4.38%	245,000	-	-	4.70%	165,000	4.15%	150,000	-	-	560,000	
2023	-	-	-	-	4.40%	255,000	-	-	4.80%	170,000	4.38%	160,000	-	-	585,000	
2024	-	-	-	-	4.40%	265,000	-	-	4.90%	180,000	4.38%	165,000	-	-	610,000	
2025	-	-	-	-	4.40%	265,000	-	-	5.00%	185,000	4.50%	175,000	-	-	625,000	
2026	-	-	-	-	4.40%	300,000	-	-	5.10%	190,000	4.50%	180,000	-	-	670,000	
2027	-	-	-	-	-	-	-	-	5.15%	200,000	4.50%	190,000	-	-	390,000	
2028	-	-	-	-	-	-	-	-	5.20%	210,000	4.70%	200,000	-	-	410,000	
2029	-	-	-	-	-	-	-	-	5.25%	225,000	4.70%	205,000	-	-	430,000	
		<u>\$ 2,220,000</u>		<u>\$ 1,325,000</u>		<u>\$ 2,520,000</u>		<u>\$ 965,000</u>		<u>\$ 2,900,000</u>		<u>\$ 2,165,000</u>		<u>\$ 3,400,000</u>	<u>\$ 15,495,000</u>	

See accompanying independent auditor's report.

City of Keokuk
Bond and Note Maturities
June 30, 2010

Revenue Bonds									
Year Ending June 30,	Solid Waste Revenue		Sewer Revenue						
	Issued April 24, 2008		Issued December 16, 2009		Issued January 20, 2010		Issued January 20, 2010		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2011	3.94%	\$ 60,000	-	\$ -	-	\$ -	-	\$ -	\$ 60,000
2012	3.94%	65,000	-	-	3.00%	1,000	3.00%	141,000	207,000
2013	3.94%	65,000	0.00%	58,754	3.00%	64,000	3.00%	146,000	333,754
2014	3.94%	70,000		-	3.00%	66,000	3.00%	150,000	286,000
2015	3.94%	75,000		-	3.00%	68,000	3.00%	151,648	294,648
2016	3.94%	75,000		-	3.00%	71,000		-	146,000
2017	3.94%	80,000		-	3.00%	73,000		-	153,000
2018	3.94%	80,000		-	3.00%	75,000		-	155,000
2019	3.94%	85,000		-	3.00%	78,000		-	163,000
2020		-		-	3.00%	80,000		-	80,000
2021		-		-	3.00%	83,000		-	83,000
2022		-		-	3.00%	86,000		-	86,000
2023		-		-	3.00%	88,000		-	88,000
2024		-		-	3.00%	91,000		-	91,000
2025		-		-	3.00%	94,000		-	94,000
2026		-		-	3.00%	97,000		-	97,000
2027		-		-	3.00%	100,000		-	100,000
2029		-		-	3.00%	104,000		-	104,000
2029		-		-	3.00%	107,131		-	107,131
		\$ 655,000		\$ 58,754		\$ 1,426,131		\$ 588,648	\$ 2,728,533

See accompanying independent auditor's report.

**City of Keokuk
Bond and Note Maturities
June 30, 2010**

Capital Loan Notes						Urban Renewal Tax Increment Revenue Capital Loan Note	
Year Ending June 30,	<u>Issued November 3, 2006</u>		<u>Issued June 15, 2009</u>		Total	<u>Issued September 1, 2008</u>	
	Interest Rate	Amount	Interest Rate	Amount		Interest Rate	Amount
2011	4.78%	\$ 60,000	3.50%	\$ 66,228	\$ 126,228	4.75%	\$ 115,000
2012	4.78%	60,000	3.50%	68,567	128,567	5.13%	120,000
2013	4.78%	60,000	3.50%	70,920	130,920	5.25%	125,000
2014	4.78%	60,000	-	-	60,000	5.38%	130,000
2015	4.78%	80,120	-	-	80,120	5.38%	140,000
2016	-	-	-	-	-	5.50%	145,000
2017	-	-	-	-	-	5.63%	155,000
2018	-	-	-	-	-	5.75%	160,000
2019	-	-	-	-	-	5.75%	170,000
2020	-	-	-	-	-	6.00%	180,000
2021	-	-	-	-	-	6.00%	190,000
2022	-	-	-	-	-	6.00%	205,000
2023	-	-	-	-	-	6.00%	215,000
2024	-	-	-	-	-	6.00%	230,000
2025	-	-	-	-	-	6.00%	245,000
2026	-	-	-	-	-	6.00%	255,000
2027	-	-	-	-	-	6.00%	275,000
2028	-	-	-	-	-	6.00%	290,000
		<u>\$ 320,120</u>		<u>\$ 205,715</u>	<u>\$ 525,835</u>		<u>\$ 3,345,000</u>

See accompanying independent auditor's report.

City of Keokuk
Schedule of Receipts by Source and Disbursements by Function
All Governmental Fund Types

	Year Ended June 30,							
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:								
Property tax	\$ 3,533,012	\$ 3,401,013	\$ 3,383,054	\$ 5,686,286	\$ 5,233,320	\$ 5,151,427	\$ 5,467,107	\$ 5,715,165
Tax increment financing	1,384,357	1,064,215	1,036,347	428,735	281,426	394,507	339,849	318,243
Other city tax	2,502,081	2,625,428	2,487,089	-	-	-	-	-
Use of money and property	154,553	263,587	481,309	456,053	238,818	187,059	216,807	217,866
Licenses and permits	139,211	156,705	161,416	153,330	150,293	163,742	63,685	74,946
Intergovernmental	2,400,299	4,821,069	2,494,575	1,733,506	2,325,377	2,161,785	1,867,060	2,385,411
Charges for services	210,197	221,190	164,847	194,165	212,194	241,114	254,060	184,625
Miscellaneous	<u>186,685</u>	<u>291,241</u>	<u>165,213</u>	<u>146,134</u>	<u>835,057</u>	<u>269,090</u>	<u>266,688</u>	<u>264,657</u>
Total	<u>\$ 10,510,395</u>	<u>\$ 12,844,448</u>	<u>\$ 10,373,850</u>	<u>\$ 8,798,209</u>	<u>\$ 9,276,485</u>	<u>\$ 8,568,724</u>	<u>\$ 8,475,256</u>	<u>\$ 9,160,913</u>
Disbursements:								
Public safety	\$ 4,611,053	\$ 3,971,172	\$ 4,054,327	\$ 4,978,881	\$ 3,858,498	\$ 3,856,541	\$ 3,674,279	\$ 3,682,830
Public works	1,858,150	3,827,983	1,418,235	1,370,077	1,367,974	1,326,854	1,317,452	1,452,305
Culture and recreation	1,382,831	1,171,850	1,059,749	1,068,664	1,560,772	1,132,176	1,206,421	1,210,640
Community and economic development	445,286	1,485,349	370,196	369,678	155,496	114,447	193,298	389,689
General government	560,719	523,056	584,972	493,239	524,259	512,685	536,495	598,778
Debt service	2,148,587	4,536,373	1,523,847	916,686	788,247	993,122	986,215	990,835
Capital projects	<u>3,189,899</u>	<u>4,556,521</u>	<u>2,437,932</u>	<u>1,332,133</u>	<u>1,250,768</u>	<u>895,264</u>	<u>575,254</u>	<u>1,272,339</u>
Total	<u>\$ 14,196,525</u>	<u>\$ 20,072,304</u>	<u>\$ 11,449,258</u>	<u>\$ 10,529,358</u>	<u>\$ 9,506,014</u>	<u>\$ 8,831,089</u>	<u>\$ 8,489,414</u>	<u>\$ 9,597,416</u>

See accompanying independent auditor's report.

City of Keokuk
Schedule of Expenditures of Federal Awards
June 30, 2010

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
U.S. Department of Justice direct programs:			
Byrne Memorial State and Local Law Enforcement Assistance Formula Grant Program	16.738	2009DJBX1064	\$ 25,950
ARRA - Byrne Memorial Justice Assistance Grant	16.804	2009SBB92187	50,950
Community Oriented Policing Services - Technology Program	16.710	2009CKWX0082	82,674
Community Oriented Policing Services - Technology Program	16.710	2008UMWX0036	<u>88,865</u>
Subtotal U.S. Department of Justice direct programs			<u>248,439</u>
Pass-through program from:			
Iowa Governor's Office of Drug Control Policy: ARRA - Byrne Memorial State and Local Law Enforcement Assistance Grant Program	16.803	09-JAG/ARRA-212	<u>139,727</u>
Total U.S. Department of Justice			<u>388,166</u>
U.S. Department of Homeland Security:			
Pass-through program from:			
Iowa Department of Public Defense Iowa Homeland Security and Emergency Management Division Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	DR-1763-IA	<u>189,410</u>
U.S. Department of Housing and Urban Development:			
Pass-through program from:			
Iowa Department of Economic Development Community Block Grant Program	14.228	07-HSG-023	<u>104,680</u>
U.S. Department of Agriculture:			
Rural Business Enterprise Grant	10.769	16-056-426004829	<u>36,500</u>
U.S. Department of Transportation direct programs:			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-19-0050-15	52,469
Airport Improvement Program	20.106	3-19-0050-17	<u>59,384</u>
Subtotal U.S. Department of Transportation direct programs			<u>111,853</u>
Pass-through program from:			
Iowa Governor's Traffic Safety Bureau:			
Public Traffic Services - NHTSA	20.600	PAP 09-04, Task 08	3,680
Public Traffic Services - NHTSA	20.600	PAP 10-410, Task 40	<u>7,204</u>
Subtotal U.S. Department of Transportation pass-through programs			<u>10,884</u>
Total U.S. Department of Transportation			<u>122,737</u>

(continued)

City of Keokuk
Schedule of Expenditures of Federal Awards
June 30, 2010

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
U.S. Department of Education pass-through program from: Iowa Department of Transportation ARRA - State Fiscal Stabilization Fund (SFSF) Government Services, Recovery Act	84.397	S397A090016A	<u>13,645</u>
U.S. Environmental Protection Agency pass-through programs from: Iowa Department of Economic Development ARRA - Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	CF0203R	1,445,559
ARRA - Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	CS0202R	<u>38,890</u>
Total U.S. Environmental Protection Agency			<u>1,484,449</u>
			<u>\$ 2,339,587</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Keokuk and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



401 South Roosevelt Avenue - Suite 2A, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards***

Honorable Mayor and Members of the City Council
City of Keokuk, Iowa

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Keokuk, Iowa (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City, and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CPA Associates PC

December 21, 2010



401 South Roosevelt Avenue - Suite 2A, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

Honorable Mayor and Members of the City Council
City of Keokuk, Iowa

Compliance

We have audited the compliance of the City of Keokuk, Iowa (City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying Schedule of Findings and Questioned Costs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program identified in the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses over compliance and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a significant deficiency.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC

December 21, 2010

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program is as follows:
 - CFDA Number 66.458 - Environmental Protection Agency - Capitalization Grants for Clean Water State Revolving Loan Funds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Keokuk qualified as a low-risk auditee.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCY

- II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCY

- III-A-10 Segregation of Duties over Federal Receipts - The City did not properly segregate collection, deposit and recordkeeping for receipts, including those related to federal programs. See item II-A-10.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-10 Certified Budget - Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the culture and recreation, community and economic development, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

IV-B-10 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-C-10 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Gabe Rose and J.W. Guy, Firefighters Owners of PC Technologies	Computer purchases and repairs	\$ 34,020

The computer purchases and repairs appear to represent a conflict of interest since they were not entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - The City will proceed with a competitive bidding process.

Conclusion - Response accepted.

IV-D-09 Revenue Bond and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

IV-E-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

IV-F-10 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Keokuk
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (continued)

IV-H-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-I-09 Financial Condition - The Internal Service Employee Health Fund had a deficit balance of \$779 at June 30, 2010.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to sound financial position.

Response - This deficit was due to project costs or program costs incurred prior to receipt of revenues or transfers. This deficit will be eliminated.

Conclusion - Response accepted.

IV-J-10 Separately Maintained Records - The Keokuk Historic Preservation Commission and Emergency Corp maintain separate checking accounts. These accounts are separate from the City's accounts, allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from these accounts are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose". For better accountability and financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - We will meet with the Commissions and establish appropriate procedures.

Conclusion - Response accepted.

IV-K-10 Cash Management of Federal Award Advances - The City does not have a procedure in place to track and report interest earned on federal award advances that are not expended within a reasonable amount of time.

Recommendation - The City should establish a procedure to track interest earned on federal award advances that are not expended within a reasonable amount of time and to report interest earned to the appropriate federal agency.

Response - The City will establish procedures.

Conclusion - Response accepted.

**City of Keokuk
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010**

Prior Audit Findings for Federal Awards

SIGNIFICANT DEFICIENCY

III-A-09 Segregation of Duties over Federal Receipts - The City of Keokuk did not properly segregate collection, deposit and recordkeeping for receipts, including those related to federal programs.

Recommendation - It was recommended that the City review its control procedures to obtain the maximum internal control possible under the circumstances, and should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Current Status - Due to the limited number of office employees, segregation of duties over federal receipts continues to be a significant deficiency. See III-A-10 in the current year findings.